

PHILIPPINES ECONOMIC WRAP-UP

MAY 06 - MAY 12, 2000

----- Summary -----

The Philippines took center stage in newsrooms this week with a hostage crisis and a computer virus. We report, however, on higher inflation and a poor start for agricultural production. Further, it appears the government may delay the PNB sale. We do report on the advancement of bills in the legislature that will advance the country's e-commerce prospects (in part by outlawing viruses and hacking), and also on the ongoing recovery in the automotive sector.

2. These weekly reviews are available on the Embassy's web site (<http://www.usembassy.state.gov/manila>). A longer and more detailed review of the Philippine economy can also be found on our web site in the Embassy's January Economic Outlook. Our May Edition of the Outlook will be available soon.

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----- Market and Policy Developments -----

FOREX REPORT

Weak corporate demand (and lethargic trading) saw the Philippine peso fall through the week. Political unrest in Mindanao and weakness in regional currencies contributed to the fall, as did the decision by central bank authorities not to hike overnight rates further. Overall, the peso ended the week at P41.50/US\$; its May 5 close was P41.28/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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APR 03	41.147	41.135	197.5
04	41.174	41.150	158.6
05	41.172	41.130	150.5
06	41.129	41.120	163.0
07	41.093	41.105	128.6
APR 10	41.115	41.105	132.5
11	41.104	41.117	139.0
12	41.157	41.180	187.0
13	41.166	41.155	140.3
14	41.157	41.170	49.0
APR 17	41.228	41.190	132.0
18	41.189	41.180	84.9
19	41.218	41.230	117.9
20	Markets Closed		
21	Markets Closed		
APR 24	41.258	41.275	74.5
25	41.342	41.355	129.2
26	41.378	41.310	143.7
27	41.278	41.300	123.8
28	41.279	41.280	136.9
MAY 01	Markets Closed		
02	41.275	41.279	127.9
03	41.269	41.270	84.4
04	41.265	41.280	65.5
05	41.279	41.280	112.6

May 08	41.274	41.280	45.0
09	41.279	41.279	57.5
10	41.353	41.370	113.5
11	41.398	41.430	93.5
12	41.474	41.500	119.5

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Apprehension over widely-expected, further hikes in U.S. rates next week and a depreciating peso nudged up bid rates during this week's Treasury bill and bond auctions. Yields on the 91-day T-bills rose 4.6 basis points to 8.746%; 182-day bills by 8.9 basis points to 9.825%; and 364-day bills by 3.6 basis points to 10.8%. Bankers noted that excess liquidity tempered what could have been more pronounced rate increases. The Bureau of Treasury made a full award of all three maturities.

Reflecting a preference for shorter maturities, the May 9 auction of two-year T-bonds saw rates for the 5-year instruments rise 50 basis points (from a month earlier) to 13.25%. The Bureau of Treasury awarded only P1.6 billion of the P3 billion on offer.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
MAR 27	8.912	9.475	10.500
APR 03	8.843	9.385	10.392
APR 10	8.760	9.376	10.391
APR 17	8.744	9.535	10.510
APR 24	8.689	9.555	10.634
MAY 02	8.700	9.736	10.764

Source: Bureau of the Treasury

Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey	Average	Range
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APR 06	11.1758	9.75 - 13.500
APR 13	11.1366	9.50 - 13.375
APR 18	11.1330	9.50 - 13.375
APR 27	11.2353	9.50 - 13.375
MAY 03	10.9953	9.50 - 13.375
MAY 09	11.0068	9.50 - 13.375

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Philippine stocks briefly broke through the 1500 support level this week before a Friday rally on bargain hunting brought prices back up above 1500. Volumes continue to be extremely low as investors, spooked by computer viruses, foreign hostages, and a general lack of good news, stay away in droves. Overall the 33-share Philippine Stock Index (PHISIX) ended the week at 1539.31; its close a week earlier was 1531.90.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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APR 03	1688.32	976
04	1682.53	1070
05	1691.05	2634
06	1713.24	1079
07	1738.49	1223
APR 10	1796.66	1425
11	1757.45	1241
12	1744.57	974
13	1725.98	1107
14	1712.54	1293
APR 17	1637.54	1441
18	1648.13	1435

19	1664.00	3629
20	Markets Closed	
21	Markets Closed	
APR 24	1664.46	482
25	1647.56	945
26	1639.83	913
27	1620.53	950
28	1598.73	1046
MAY 01	Markets Closed	
02	1606.04	979
03	1592.68	692
04	1553.34	922
05	1551.90	914
MAY 08	1518.61	828
09	1523.43	818
10	1522.96	4,599 a/
11	1505.21	778
12	1539.31	1064

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.

Source: Philippine Stock Exchange

APRIL YEAR-ON-YEAR INFLATION AT 3.7%

The government's National Statistics Office (NSO) reported that April 2000's consumer price index (CPI) increased by 0.2% month-on-month, from 0.1% in March. That faster month-on-month rate reflected increases in fuel and utility rates and in prices for housing and repair. Like February and March last year, April 1999's consumer price index declined month-on-month (mainly because food prices began to stabilize from the cost-push effects of 1998 weather disturbances). Because of that low base, consumer price inflation rose more markedly on a year-on-year basis (i.e., to 3.7%), accelerating for a third consecutive month.

Economists generally expect year-on-year inflation to inch up as the year progresses -- reflecting improving overall demand, cost push effects of utility rate

adjustments, and lingering fiscal uncertainties. Because inflation slowed markedly during 1999's second semester, 2000 prices also will be coming off a relatively low base. Still, inflation thus far has been lower than expected. Year-on-year inflation averaged 3.2% during the first four months of the year, well within the government's 5-6% full-year target.

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

Jan 1999	11.6	2.1
Feb	9.9	(0.1)
Mar	8.7	(0.3)
Apr	7.9	(0.1)
May	6.7	0.1
Jun	5.7	0.8
Jul	5.7	0.2
Aug	5.5	0.3
Sep	5.7	0.5
Oct	5.4	0.3
Nov	3.9	0.1
Dec	4.3	0.1
Average		
Jan-Apr 1999	9.5	
Jan-Dec 1999	6.6	
Jan 2000	2.6	0.5
Feb	3.0	0.3
Mar	3.3	0.1
April	3.7	0.2
Average		
Jan-Apr 2000	3.2	

Source: National Statistics Office

AGRICULTURE OFF TO SLOW START

The Department of Agriculture estimated recently that first quarter 2000 rice harvests contracted by 4.5% year-on-year and corn harvests by 20.6%. These major crops account for more than 20% of overall agricultural sector

output (and agriculture, in turn, contributes about one-fifth of Philippine GDP). Government officials attributed the decline to a combination of pest infestation, natural and man-made calamities (including flash floods and ash fall), and shifting to other crops. Agricultural economists added that cheap chicken imports have adversely affected the local poultry industry (10% of agricultural sector output), which also weighs down agriculture's overall first quarter performance.

The Department of Agriculture has yet to release overall first quarter results, but several economists estimate that agricultural sector growth may have ranged from -1% to +1%. Government officials expect rice and corn harvests to pick-up in coming quarters, more than making up for the first quarter losses. However, they admit that the strength and prospects for recovery may require reassessment, depending on the peace and order situation in Mindanao (which accounts for about a quarter of the country's rice produce and the bulk of corn harvests). The government's current 4-5% GDP growth target for year 2000 assumes a 3.0-3.5% expansion in full-year agricultural sector output.

PNB PRIVATIZATION DEFERRED?

According to press reports, the government intends to postpone by a month the joint government-Lucio Tan sale of Philippine National Bank (PNB) shares. The pre-qualification deadline for the nearly 80% block had earlier been set for May 15 and the awarding for May 26. Bangko Sentral Governor Rafael Buenaventura and Department of Finance (DOF) Secretary Jose Pardo said the government would ask the International Monetary Fund (IMF) and Mr. Tan to approve the extension, and expressed optimism that the response would be favorable. According to government officials, a number of parties had asked for more time to conduct due diligence on PNB. The officials also said it would be more appropriate to conduct the sale after the new General Banking Act (GBA), recently ratified by both houses of Congress, is signed into law by President Estrada. Among other provisions, the new law will allow a foreign bank to own up to 100% of a locally incorporated bank (the current ceiling is 60%).

BANK NOTES

Debt Relief To Urban Bank Subsidiary: Early this week, the Securities and Exchange Commission (SEC) granted Urbancorp Investment Inc.'s request to suspend debt payments. Urbancorp is the investment house subsidiary of recently closed Urban Bank. The SEC granted the 60-day reprieve following Urbancorp's reported failure to service some P6 billion in maturing obligations and pending agreement with creditors on an acceptable rehabilitation plan. The SEC also appointed an interim receiver, auditing and consultancy firm Joaquin Cunanan & Co. (an affiliate of Price Waterhouse). Urbancorp blamed its liquidity problems to the loss of confidence in its mother firm and to recent scandals involving other investment houses. A number of earlier reports, however, had partly blamed Urbancorp's problems for Urban Bank's closure. Some traders allege that Urbancorp engaged in "unconventional", off-balance sheet market dealings and noted that its liquidity problems preceded the bank run which prompted Urban Bank to declare a bank holiday in late April.

PBCom Going For Stock Rights Offer: Publicly-listed Philippine Bank of Communications (PBCom) disclosed to the SEC that its board had recently approved a P2.6 billion stock rights offering. The planned offering is expected to beef up the bank's capital stock from an estimated P4.7 billion to over P7 billion. Before this announcement, PBCom had unsuccessfully pursued a number of exploratory mergers in order to meet the end-1999 minimum capital requirement (P4.95 billion) for "expanded" commercial banks (i.e., a banks licensed to perform the activities of an investment house in addition to regular commercial banking functions). Following collapsed merger talks with Asian Bank (which has since been purchased by the Metrobank group) and facing another minimum capital hike by end-2000 (P5.4 billion), PBCom applied to downgrade to "regular" commercial bank status later last year. Last month, PBCom advised the stock exchange that the Bangko Sentral had approved its request to downgrade.

Bank of Nova Scotia Unloads Solid Bank Shares: Metrobank officially took over Bank of Nova Scotia's 40% stake in Solid Bank (a publicly-listed expanded commercial bank)

on May 10. By assets, Solid Bank ranked fifteenth among the country's 52 commercial banks as of 1999. Completed through a block sale at the Philippine Stock Exchange, the transaction accounted for P3.9 billion (85%) of the P4.6 billion worth of stocks which changed hands during that day. Solid Bank's controlling families sold their 51% stake in Metrobank earlier this year. Metrobank has been working aggressively to retain its top slot as the country's largest commercial bank -- a position threatened by the ongoing BPI-Far East merger.

COMPUTER CRIME LEGISLATION MOVES FORWARD

The Philippine Senate passed on April 10 a bill that would make hacking and other computer activities illegal. The E-Commerce bill has been under consideration for more than two years. The House of Representatives is expected to begin floor debate of similar legislation on May 15; approval is expected by May 31. Once both bills are passed, differences will be reconciled in a conference committee, then the legislation will go to the President for signature into law. The bills are intended to accelerate the development of electronic commerce in the Philippines by introducing concepts such as electronic signatures. On 'hacking,' the law specifically prohibits accessing or interfering with computer systems without the owner's knowledge or consent, and the introduction of viruses or similar computer programs that cause the destruction, corruption, loss, or theft of data. The minimum fine is set at P100,000, with six months in prison. Interest in the legislation was revived by the launch of the 'ILOVEYOU' virus from the Philippines, and the inability of Philippine authorities to prosecute the alleged perpetrators.

AUTO SALES SHOW SIGNS OF RECOVERY

The automotive industry continues to show signs of recovery with total sales climbing 20.5% to 27,109 units in the first four months from 22,501 units a year ago, the Chamber of Automotive Manufacturers of the Philippine Inc. (CAMPI) reported. Posting a stronger growth rate of 23% are light commercial vehicles (Asian utility vehicles, sport-utility vehicles, pickup trucks, vans, trucks and buses), which accounted for 63% of total sales. Passenger car sales, which made up 37% of total

sales in January to April, rose 16.4% to 9,925 units from 8,524 units year-on-year. After a 7% year-on-year decline in industry sales in 1999, assemblers are optimistic that the automotive sector would be able to sustain the recovery, and hit 14% sales growth (to 85,000 units) for the year. Leading local assemblers include Toyota (31% of total sales), Mitsubishi (19%) and Honda (17%). They have reasons to be optimistic. New car buyers seem ready and willing to make their purchases after waiting for more than two years for interest rates to stabilize near pre-crisis levels. Many banks have reopened their auto financing windows, although they still continue to require collateral and impose tight credit checking.